SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 1996

Commission File number 0-23828

Labor Ready, Inc.
(Exact Name of Registrant as specified in its charter)

Washington	91-1287341
(State of Incorporation)	(Federal I.R.S. No.)
1016 South 28th Street, Tacoma, Washington	98409
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number 206-383-9101

Securities registered pursuant to Section 12(b) or 12(g) of the Act:

Common Stock, No Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

The aggregate market value of the voting stock held by non-affiliates of the registrant, on October 30, 1996 was $137,069,287.

As of October 30, 1996, the Registrant had 12,373,426 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LABOR READY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

INDEX

LABOR READY, INC. Consolidated Balance Sheets at September 30, 1996 (Unaudited) and December 31, 1995 (Audited)

ASSETS

	September 30, 1996	December 31, 1995
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,498,484	$ 5,359,113
Accounts receivable, net of allowance for doubtful accounts of $1,548,503 and $868,607, respectively	21,451,382	12,182,806
Workers' compensation deposits and credits	4,120,028	1,886,644
Prepaid expenses and other	1,476,950	602,052
Deferred income tax	1,029,000	698,930
Total Current Assets	49,575,844	20,729,545
PROPERTY AND EQUIPMENT:		
Cost	8,332,000	3,542,071
Accumulated depreciation	1,138,996	690,648
Property and Equipment, Net	7,193,004	2,851,423
OTHER ASSETS:		
Intangible assets, less amortization of $119,237 and $114,588	163,959	962,632
Workers' compensation deposits and credits, less current portion	3,260,766	1,427,905
Deferred income tax	100,000	16,477
Other	163,166	193,653
Total Other Assets	3,687,891	2,600,667
TOTAL ASSETS	$60,456,739	$26,181,635

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LABOR READY, INC. Consolidated Balance Sheets at September 30, 1996 (Unaudited) and December 31, 1995 (Audited)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1996	December 31, 1995

CURRENT LIABILITIES:		
Checks issued against future deposits	$ 1,845,589	$ 514,842
Accounts payable	896,998	1,118,081
Accrued wages and related expenses	2,070,167	1,588,147
Workers' compensation claims	3,774,283	1,943,338
Income taxes payable	289,902	1,161,000
Note payable	0	1,591,206
Current maturities of long-term debt	13,798	39,117
Total Current Liabilities	8,890,737	7,955,731
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	90,352	953,937
Subordinated debt, less unamortized discount of $0 and $1,259,377	0	8,740,623
Total Long-term Liabilities	90,352	9,694,560
Total Liabilities	8,981,089	17,650,291
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, $0.444 par value, 5,000,000 shares authorized ; issued and outstanding 1,921,687	854,082	854,082
Common stock, no par value, 25,000,000 shares authorized, issued and outstanding 12,372,864 and 8,818,700 shares	49,562,308	7,116,422
Cumulative foreign currency translation adjustment	(39,914)	(28,707)
Retained earnings	1,099,174	589,547
Total Shareholders' Equity	51,475,650	8,531,344
Total Liabilities and Shareholders' Equity	$60,456,739	$26,181,635

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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LABOR READY, INC. Consolidated Statements of Operations
For the Nine Months and the Three Months
Ended September 30, 1996 and 1995 (Unaudited)

<TABLE>
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	Nine Months Ended		Three Months Ended	
	1996	1995	1996	1995
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Revenues from services	$109,371,091	$63,240,036	$47,246,237	$30,872,700
Cost of services	89,006,985	51,066,172	37,589,614	24,689,547
Selling, general & administrative	16,972,039	9,158,043	7,187,429	3,515,036
Interest and other, net	632,812	659,121	(129,241)	367,950
Income before taxes on income and extraordinary loss	2,759,255	2,356,700	2,598,435	2,300,167
Taxes on income	1,020,200	848,412	960,200	829,191
Net income before extraordinary loss	$ 1,739,055	$ 1,508,288	$ 1,638,235	$ 1,470,976
Extraordinary loss on the early retirement of subordinated debt (net of income tax benefit of $703,200)	1,197,400	0	1,197,400	0
Net income	$ 541,655	$ 1,508,288	$ 440,835	$ 1,470,976

Earnings per common share:				
Net income per share before extraordinary loss	$ .16	$ .16	$ .13	$ .16
Extraordinary loss per share (net of income tax benefit)	$ (.11)	$ 0	$(.09)	$ 0
Net income per share	$ .05	$ .16	$ .04	$ .16
Weighted average common shares outstanding	10,632,444	9,031,910	12,262,689	9,121,984

</TABLE>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LABOR READY, INC. Consolidated Statements of Cash Flows
for the Nine Months Ended September 30, 1996 and 1995
(Unaudited)

	Nine Months Ended 1996	Nine Months Ended 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income :	$ 541,655	$ 1,508,288
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation & amortization	574,157	284,901
Extraordinary loss on debt retirement	1,900,601	0
Provision for doubtful accounts, net	1,148,520	192,132
Deferred income taxes	(413,593)	(80,779)
Changes in Assets & Liabilities:		
Accounts receivable	(10,417,096)	(9,252,449)
Workers' compensation deposits and credits	(4,066,245)	233,225
Prepaid expenses and other	(844,411)	(357,635)
Accounts payable	(221,083)	376,417
Accrued wages and benefits	530,270	1,770,010
Accrued workers' compensation claims	1,830,945	(82,943)
Income taxes payable	(871,098)	(439,027)
Net cash used in operating activities	(10,307,378)	(4,969,806)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,789,929)	(1,137,248)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable, net	(1,591,206)	0
Borrowings on note payable, net	0	4,571,209
Checks issued against future deposits	1,330,747	0
Proceeds from issuance of common stock	33,636,259	114,998
Proceeds from warrants exercised	420,120	1,552,300
Proceeds from options exercised	380,183	0
Borrowings on long-term debt	0	300,000
Payments on long-term debt	(2,927,831)	(141,616)
Dividends	(32,028)	(42,705)
Debt Issue Costs	31,641	0
Net cash provided by financing activities	31,247,885	6,354,186
Effect of exchange rates	(11,207)	(2,585)
Net increase in cash & cash equivalents:	16,139,371	244,547
Cash and cash equivalents, beginning of period	5,359,113	603,977
Cash and cash equivalents, end of period	$ 21,498,484	$ 848,524

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended 1996	1995
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income Taxes Paid	$ 1,601,690	$490,164
Interest Paid	$ 1,164,102	$798,260
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for conversion of convertible debentures	$ 0	$ 75,000
Issuance of common stock for payment of accounts payable	$ 48,250	$ 7,679
Property in exchange of debt	$0	$817,900
Issuance of common stock for the warrants exercised on debt retirement	$ 7,961,074	$ 0

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ITEM 1. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1-SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the financial statements and related notes included in the Company's 1995 Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996.

NOTE 2 - PROPERTIES

In July 1996, the Company purchased a 44,000 square foot building with an adjacent 10,000 square foot print shop, located in Tacoma, Washington including the land, building, furniture, fixtures and equipment for $1,350,000. The new facility will accommodate the Company's continuing expansion. No new or additional financing was necessary for this capital purchase due to the recent completion of the Company's stock offering (see note 3).

NOTE 3 - COMMON STOCK

In June 1996, the Company sold, through an underwritten public offering, 1,950,000 common shares, at $15.23 per share. An additional 292,500 common shares were sold pursuant to an underwriters over-allotment option.

The net proceeds from the offering are being used to fund opening of new dispatch offices, purchase of an office building in Tacoma, Wa., payment of short-term debt, prepayment of senior subordinated debt and other long-term debt and for working capital and other general corporate purposes.

Surplus funds are currently invested in short-term, interest bearing instruments, including government obligations and money market instruments.

In July 1996, the Company's Board of Directors approved a three-for-two common stock dividend. This common stock dividend was effected in the form of three shares of common stock issued for every two shares of common stock outstanding, effective for shareholders of record on July 31, 1996. All applicable share and per share data have been adjusted for the common stock dividend.

NOTE 4 - PREFERRED STOCK

In July 1996, the Company's Board of Directors approved a three-for-two preferred stock dividend. This preferred stock dividend was effected in the form of three shares of preferred stock issued for every two shares of preferred stock outstanding, effective for shareholders of record on July 31, 1996. All applicable share and per share data have been adjusted for the preferred stock dividend.

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NOTE 5 - WORKERS' COMPENSATION

In 1996, the Company deposited $7.5 million with a foreign off-shore company for the payment of workers' compensation claims and related expenses on claims originating in the Non-monopolistic states. At September 30, 1996, $6.5 million remained on deposit for the payment of future non-monopolistic claims and related expenses and is recorded as workers' compensation deposits and credits. Estimated incurred losses and related settlement and administration expenses to be paid from those deposits of $3.3 million are recorded as current workers' compensation claims payable at September 30, 1996. Additional workers' compensation liabilities for amounts owed to the monopolistic states at September 30, 1996, totaled $490,000. Workers' compensation expense of $5.5 million was recorded as a component of the cost of services for the nine months ended September 30, 1996.

NOTE 6 -SUBORDINATED DEBT

In August 1996, the Company notified the holders of the 13% senior subordinated debt of its intent to prepay the entire outstanding obligation of $10,000,000 as of September 5, 1996. The debt was extinguished through the payment of approximately $2.0 million and the issuance of, 1,023,552 common shares for approximately $8.0 million upon the exercise of all detachable stock warrants held. An extraordinary loss of $1,197,400 (net of the income tax benefit of $703,200) was incurred from the early extinguishment of the subordinated debt.

NOTE 7 -EMPLOYEE BENEFIT PLANS

At the August 1996, annual shareholders meeting, approval was obtained for the adoption of both an Employee Stock Option and Incentive Plan (Option Plan) and an Employee Stock Purchase Plan (Purchase Plan). The number of aggregate shares of common stock that may be issued under both the Purchase Plan and Option Plan shall not exceed 500,000.

The Purchase Plan provides that substantially all employees who have completed six months of service an opportunity to purchase shares of its common stock through payroll deductions, up to 10% of eligible compensation. The purchase of shares of stock is at the lesser of 85% of the fair market value of the stock on the offering date, or 85% of the fair market value of the stock on the last business day of the offering. There were no shares issued under the Purchase Plan as of September 30, 1996.

The Option Plan allows for the grant of incentive stock options, nonqualified stock options and stock appreciation rights. The Compensation Committee has ultimate discretion in the grant of shares under this plan. There were no options issued under this plan as of September 30, 1996.

NOTE 8 -NEW FINANCING FACILITY

In August 1996, the Company obtained a new revolving credit facility from U. S. Bank of Washington, NA which provides for borrowings of up to $20.0 million secured by eligible accounts receivable. The U. S. Bank revolving credit facility bears interest below market rates. The Company currently has no borrowings against this credit facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Labor Ready is a leading, national provider of temporary workers for manual labor jobs. The Company's customers are primarily in construction, freight handling, warehousing, landscaping, light manufacturing, and other light industrial businesses. The Company has rapidly grown from eight dispatch offices in 1991 to 194 dispatch offices at September 30, 1996. Substantially all of the growth in dispatch offices was achieved by opening Company-owned locations rather than through acquisitions.

In 1995, the Company opened 57 new dispatch offices at an average cost of approximately $35,000 per dispatch office. The average cost of opening new dispatch offices increased due to more extensive management training and the installation of more sophisticated computer and other office systems. Once open, the Company invests significant amounts of additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs, generally in two to six months. The Company pays its temporary workers on a daily basis, and bills its customers on a weekly basis. Consequently, the Company experiences negative cash flow from operations and investment activities during periods of high growth, which also adversely impacts the Company's overall profitability. The Company expects to continue to experience periods of negative cash flow from operations and investment activities while it rapidly opens dispatch offices and expects to require additional sources of working capital in order to continue to grow.

Many of the Company's customers are construction and landscaping businesses, which are significantly affected by the weather. Construction and landscaping businesses and, to a lesser degree, other customer businesses typically increase activity in spring, summer and early fall months and decrease activity in late fall and winter months. Inclement weather can slow construction and landscaping activities in such periods. As a result, the Company has generally experienced a significant increase in temporary labor demand in the spring, summer and early fall months, and lower demand in the late fall and winter months.

Depending upon location, new dispatch offices initially target the construction industry for potential customers. As dispatch offices mature, the customer base broadens and the mix of work diversifies. The Company may discount its rates when it enters a new market to attract customers. From time to time during peak periods, the Company experiences shortages of available temporary workers.

Cost of services primarily includes wages and related payroll expenses of temporary workers and dispatch office employees, general managers, district managers and area directors, including workers' compensation insurance, medicare and social security taxes, but does not include dispatch offices lease expenses. The Company's cost of services as a percentage of revenues has fluctuated significantly in recent periods and it expects significant fluctuations to continue in future periods as the Company continues its rapid growth. Cost of services as a percentage of revenues is affected by numerous factors, including salaries of new supervisory

personnel hired under new management organizational structures, the hiring of large numbers of general managers prior to dispatch office openings, the use of lower introductory rates to attract new customers at new dispatch offices, and the relatively lower revenues generated by new dispatch offices prior to reaching maturity.

Temporary workers assigned to customers remain Labor Ready employees. Labor Ready is responsible for employee-related expenses of its temporary workers, including workers' compensation, unemployment compensation insurance, medicare and social security taxes and general payroll expenses. The Company does not provide health, dental, disability or life insurance to its temporary workers. Generally, the Company bills its customers for the hours worked by the temporary workers assigned to the customer. Because the Company pays its temporary workers only for the hours actually worked, wages for the Company's temporary workers are a variable cost that increases or decreases directly in proportion to revenue.

The Company has one franchisee which operates five dispatch offices. The Company does not intend to grant additional franchises. Royalty revenues from the franchised dispatch offices are included in revenues from services and were not material during any period presented herein.

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1995

DISPATCH OFFICES. The Company grew from 106 locations at December 31, 1995 to 194 locations at September 30, 1996, an increase of 88 locations for the nine month period. The Company opened 25 dispatch offices during the third quarter of 1996 compared to 4 dispatch offices during the third quarter of 1995.

REVENUES FROM SERVICES. The Company's revenues from services increased to $109.4 and $47.2 million for the nine months and three months ended September 30, 1996 compared to $63.2 and $30.9 million for the nine months and three months ended September 30, 1995, an increase of $46.2 million (73.1%) and $16.3 million (52.8%), respectively. This increase resulted primarily from increases in revenues from dispatch offices open for the full period.

COST OF SERVICES. Cost of services increased to $89.0 and $37.6 million for the nine months and three months ended September 30, 1996 compared to $51.1 and $24.7 million for the nine months and three months ended September 30, 1995, an increase of $37.9 million (74.2%) and $12.9 million (52.2%), respectively, reflecting the additional wages and salaries paid to temporary workers, additional management personnel, and related payroll and operating expenses. As a percentage of revenues, cost of services increased to 81.4% for the nine months ended September 30, 1996 from 80.7% for the nine months ended September 30, 1995. Cost of services decreased to 79.6% for the three months ended September 30, 1996 from 80% for the same period a year ago. The increase of .7% in cost of services for the nine months resulted from higher workers' compensation costs, increased salary costs for branch managers in training, longer training periods for new management personnel and for additional supervisory personnel hired under new management organizational structures partially offset by productivity gains.

The Company expects significant continuing fluctuations in cost of services as the Company pursues further aggressive growth.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general, and administrative expenses increased to $17.0 million and $7.2 million for the nine months and three months ended September 30, 1996 compared to $9.2 and $3.5 million for the year earlier period, an increase of $7.8 million (85.3%) and $3.7 million (106%), respectively. As a percentage of revenues from services, selling, general, and administrative expenses increased to 15.5% and 15.2% for the nine months and three months ended September 30, 1996 from 14.5% and 11.4% for the nine months and three months ended September 30, 1995, an increase of 1.0% and 3.8% respectively. This increase is primarily the result of the Company continuing to build its infrastructure in the selling, general and administrative expense area in order to support the rapid expansion of dispatch offices and the growth in revenues.

INTEREST AND OTHER EXPENSES. Interest and other expenses decreased to approximately $633,000 for the nine months ended September 30, 1996, with income of approximately $129,000 for the three months ended September 30, 1996, compared to approximately $659,000 and $368,000 for the nine month and three month periods ended September 30, 1995, a decrease of approximately $26,000 and $497,000, respectively. This decrease resulted primarily from payment of the Company's $10 million 13% Senior Subordinated Notes (the "Subordinated Notes") in the third quarter and interest income earned on the short term investments of approximately $20 million of surplus cash available from the proceeds of the Company's public offering completed June 18, 1996.

TAXES ON INCOME. The Company recorded taxes on income of approximately $1,020,000 and $960,000 for the nine months and three months ended September 30, 1996 compared to taxes on income of approximately $848,000 and $829,000 for the nine months and three months ended September 30, 1995. The Company's effective tax rate increased to 37% for the nine months and three months ended September 30, 1996 as compared to 36% for the comparable periods of last year. The increase was primarily due to higher state tax rates combined with higher pre-tax income.

NET INCOME. The Company recorded net income of approximately $542,000 and $441,000 for the nine months and three months ended September 30, 1996 compared to approximately $1,508,000 and $1,471,000 for the nine months and three months ended September 30, 1995, a decrease of approximately $966,000 (64%) and $1,030,000 (70%), respectively. The decrease resulted primarily from an extraordinary loss of $1.2 million (net of the income tax benefit of approximately $703,000) from the early extinguishment of the subordinated notes.

LIQUIDITY AND CAPITAL RESOURCES. In June 1996 the Company completed a common stock offering of 2,242,500 shares resulting in net proceeds to the Company of approximately $33.6 million. The Company used approximately $5.0 million to pay off the revolving credit facility, $863,000 to pay long-term debt, and $1.4 million to purchase an office building in Tacoma. The Company used approximately $8 million received from the exercise of outstanding warrants along with approximately $2 million to prepay the $10 million 13% Senior Subordinated Notes. The Company also used part of the offering proceeds to fund working capital needs. The balance will be used to fund the Company's expansion plans through 1998.

In the nine months of 1996, the Company utilized significant amounts of cash to open 88 dispatch offices. During the nine months of 1996 and 1995, the Company used net cash in operating and investing activities of approximately $15.1 million and $6.1 million, respectively, reflecting primarily increases in workers' compensation deposits, accounts receivable, and capital expenditures. Management anticipates that cash flow deficits from operating and investing activities will continue while the Company adds substantial numbers of new dispatch offices. Management expects to finance such cash flow deficits with the proceeds from its recent common stock offering.

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In August 1996, the Company obtained a new revolving credit facility from U.S. Bank of Washington, NA which provides for borrowing of up to $20.0 million secured by eligible accounts receivable. The U.S. Bank revolving credit facility bears interest below market rates. The Company currently has no outstanding borrowings against this credit facility.

In 1995, the Company opened 57 new dispatch offices at an average cost of approximately $35,000. Once opened, the Company invests significant amounts of additional cash into the operations of new dispatch offices until they begin to generate sufficient revenue to cover their operating costs, generally two to six months. Since December 31, 1995, the Company opened 88 new dispatch offices at an estimated cost of $4.8 million, of which $1.4 million was incurred in connection with opening 25 new locations in the third quarter. Further, the Company pays its temporary personnel on a daily basis, and bills its customers on a weekly basis. Since the Company plans to open a total of 94 dispatch offices in 1996, and 100 dispatch offices in 1997, the Company expects to experience cash flow deficits from operations and investment activities in 1996 and 1997. The Company intends to finance opening and operating costs of new dispatch offices with the proceeds from its recent common stock offering and debt financings. With such funds, and depending on its results of operations and other factors, the Company expects to have the financial resources necessary to reach its goal of operating 300 dispatch offices by the end of 1997. To the extent that the Company's resources are not sufficient to finance new dispatch offices, or are not sufficient to open all currently targeted dispatch offices, the Company would either seek additional capital through debt financings or slow down its expansion plans.

PART II - OTHER INFORMATION

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

An annual meeting of the shareholders of Labor Ready, Inc. was held on Tuesday, August 20, 1996.

1. The following matters were voted upon in the meeting, with results as indicated:

A. Approval of the Company's 1996 Stock Option and Incentive Plan:

Number of votes for:	4,765,432
Number of votes against:	575,896
Number of abstentions/broker nonvotes:	19,874

B. Approval of the Company's 1996 Stock Purchase Plan:

Number of votes for:	5,329,835
Number of votes against:	24,668
Number of abstentions/broker nonvotes:	6,699

C. Ratification of the selection of BDO Seidman, LLP as the Company's independent auditors:

Number of votes for:	6,437,210
Number of votes against:	13,645
Number of abstentions/broker nonvotes:	4,069

2. Results of election of Directors:

Name of Director	Number of votes cast for Director	Number of votes witheld
Glenn A. Welstad	6,405,499	49,425
Robert J. Sullivan	6,405,724	49,200
Thomas E. McChesney	6,400,724	54,200
Ronald L. Junck	6,405,724	49,200
Ralph E. Peterson	6,405,724	49,200
Richard W. Gasten	6,405,724	49,200

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGISTRANT: LABOR READY, INC.

By: /s/ Glenn A. Welstad 10/30/96

Glenn A. Welstad, Principal Executive Officer — Date

By: /s/ Ralph E. Peterson 10/30/96

Ralph E. Peterson, Principal Financial Officer — Date

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